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STATE FOR NEA-I AND EEB

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [IZ](#)
SUBJECT: HYDROCARBON FRAMEWORK LAW REMAINS ELUSIVE

Classified By: CETI Ambassador Charles Ries, reasons 1.4 b and d

11. (C) SUMMARY: PM Maliki on November 7 promised Under Secretary Jeffery that GOI action on the hydrocarbon

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framework law would begin within two weeks, but discussions with a multitude of other officials in Baghdad revealed that bridging the remaining gaps between the political parties may not be as easy as Iraqi leaders suggest. END SUMMARY.

12. (SBU) During a weeklong visit to Iraq, Under Secretary Jeffery met with key officials to press for speedy passage of benchmark legislation, including the hydrocarbon framework legislative package. This cable covers discussions in Baghdad on the hydrocarbon framework law; septels report on all other political and economic issues and on visits outside Baghdad.

PM Advisor: Going Our Separate Ways

13. (C) Thamir Gahdban, advisor to the Prime Minister and lead GOI negotiator on the hydrocarbon framework legislation, said on November 3 that it was a good time to get Kurdish agreement to move forward on the hydrocarbon legislative package, because the KRG was in a weak position due to its crisis over PKK skirmishes with Turkey. He outlined for the Under Secretary the tortured history of negotiations and the numerous differences that still separated the political parties. He remarked the GOI had learned it should not negotiate directly with the KRG, but instead should leave political compromises to be worked out in the Council of Representatives. He confirmed that the KRG enactment of a regional law and its new production sharing contracts (PSCs) with international oil companies (none of which had been published as promised) had elevated tensions and distrust. When he began negotiating with the Kurds, the KRG had only four PSCs, and the parties reached agreement in the draft law on how to treat them with the understanding there would be no more additional contracts. "Now the KRG has 10 new ones, and is moving ahead with even more," he said. He disagreed with the approach of Minister of Oil Shahrastani, who said an oil law is not necessary to enter into new contracts. However, if the KRG continued to enter into new contracts, he warned the GOI will not want a new oil law.

14. (C) Gahdban added the Oil Minister announced at the last Energy Committee meeting that the MoO's pipeline deal with Iran changed. Iraq will not receive fuel product in return, and the quantity exported will be 300,000 barrels per day, three times the amount originally proposed. In Gahdban's view, this project change makes no sense, but the Minister was unwilling to divulge any other details of the arrangement

to the PM's Energy Committee.

Oil Minister Shahrستاني: Doing it My Way

15. (C) Hussayn al-Shahrستاني outlined current activities of the Ministry on November 4, choosing to highlight the Iraq North Oil Company's (INOC) activities in drilling new wells, which he claimed would increase production next year by 250,000 barrels per day. He also reiterated he opened talks with international oil companies for "oil deals" that would follow the criteria of the draft hydrocarbon framework law. However, none of the companies are too keen to begin work in Iraq given the security situation. These deals would be service contracts not production sharing contracts, would only need to go to the High Economic Committee for approval, and would primarily be for increasing production in the giant south oilfields. The Ministry is also opening bids on various refinery projects, and hopes to tackle the problem of flared natural gas.

16. (C) On the hydrocarbon legislation, Shahrستاني blamed the KRG for complicating matters by signing their own PSCs, which have no basis under current Iraqi law. He said he was contacted by officials from Syria, Turkey and Iran who all said they have been approached by companies operating in the KRG and offered profit shares in exchange for allowing oil exports. He told them that this would be smuggling, a criminal activity. He questioned the value of an Iraqi oil law if the KRG does not intend to respect the law, and requested that we make sure the KRG knows that its new contracts will not be accepted. He argued Mr. Hunt should not use the current political situation to take advantage of the oil wealth of Iraq.

17. (C) Shahrستاني added the Ministry of Oil Reorganization Law and the INOC Law have been completed, although the INOC Law needs some further work.

Electricity Minister: No Way Now

18. (C) Minister of Electricity Kareem Wahid on November 4 opined that the parliament would pass the oil law, but added the people in Iraq have been "brainwashed for 35 years," so any action needs to proceed step-by-step. If the GOI passes anything now, he said, it will be handicapped at initial stages due to all the political compromises, so it would be better to wait.

CoR Speaker and Deputy Speaker: GOI at Fault

19. (C) During a November 5 courtesy call, Council of Representatives (CoR) Speaker Mahmoud Mashadani blamed the Council of Ministers (CoM) for lack of progress on such issues as the hydrocarbon legislation, accusing the government of presenting versions of laws to the CoR, and later retracting them for further amendment. Mashadani claimed (disingenuously) that the CoR was still awaiting presentation by the cabinet of key draft laws, since in a parliamentary system, he said, "we are supposed to await instruction from ministries."

CoR Oil & Gas Committee: Eager, but . . .

110. (C) Ali Balu, the Chairman of the CoR Oil & Gas Committee, remarked on November 5 during a group discussion that the members of parliament know "oil is the future," and cited action that day to override a Presidency Council veto of the Private Investment in Refineries Law as proof. CoR member Abdul Mahdi urged the USG to convince everyone to be more flexible, and to help address public concerns. CoR member Bayazeed Abdullah noted the nationalist opposition fears that U.S. companies will remain in Iraq; the Gulf countries fear a strong Iraq, but the Kurds favor the oil law nevertheless.

VP al Hashimi: Let me handle it

111. (C) Vice President Tareq al Hashimi on November 5 said

the hydrocarbon law highlights what he believed is lack of coordination and trust among the major political blocs. The Kurds, he said, introduced a new law on revenue-sharing (a "stumbling block" to resolution of the hydrocarbons issue). The Kurd's vision, he added, is to turn the central government into a "cashier," rather than serve as the body responsible for national planning and management. To counter the "unbelievable games" being played by the government, Hashimi said that the three Presidency Council members - representing Kurds, Sunnis, and Shia - should be authorized to negotiate all key draft laws. It would take less than a week, he stated, for members to negotiate a final draft of any given law. The draft law could then be sent directly to Parliament for voting, he added, which would avoid manipulation by the Cabinet. To illustrate his point, he referred to the hydrocarbons law and the ten oil contracts which the KRG recently signed in the absence of a national framework law.

NSA Mowafuq Rubai'e: My Grand Vision

¶12. (C) During a November 5 meeting with U/S Jeffery, National Security Advisor Mowafuq Rubaie requested USG help in "pushing the hydrocarbons law," and described GOI plans to move forward on a stream-lined draft law, separated from a revenue-sharing law, with or without Vice President Tareq al Hashimi's cooperation. Rubaie said he would be "extremely surprised" if this new law was not negotiated/voted on "by Christmas" this year. Rubaie suggested that the "Group of 4" (Talabani, Maliki, Abdel-Mehdi, and Barzani) were prepared to finalize the draft, adding that "the key to getting VP Hashimi to back down," is finding "good Sunnis" in the Parliament to support the law. Rubaie said it was his job to address Ayatollah Sistani's fatwa that the Sunnis must be part of any agreement on the subject.

¶13. (C) Responding to questions on how revenue sharing would be addressed if left out of the hydrocarbons law envisioned by Rubaie, the National Security Advisor said the PM would issue an executive order based upon "Saddam's 1969 allocation law" which apportioned only 13.1 percent of revenues to the Kurds. The current figure of 17 percent, he added, was only good until the end of this year, and was merely a "courtesy" extended by the PM. The Kurds have large amounts of money from customs and telecom revenues owed to the Central GOI, he said. Asked how the GOI would address the ten oil contracts signed between the KRG and foreign oil companies, Rubaie responded we will "cross that bridge when we get there."

¶14. (C) Rubaie said the GOI is focusing attention in the draft national budget on the oil sector and now looking at how to strengthen export capacity. Ambassador Ries reviewed recent discussions between the Embassy and the MoO on the topic and pointed to some of the challenges faced by Iraq's oil sector, including infrastructure damage, transmission bottle-necks, and inexperience with tendering and budget execution. In addition to the complicated balance between oil exports and electricity generation, U/S Jeffery encouraged the GOI to focus attention on training new generations of managers, many of whom are retired, emigrated, or killed. Rubaie said it was possible that the GOI would form a "super-ministry" in the future, to bring under one roof the ministries involved in the energy sector. Rubaie (as Chair of a presently defunct "infrastructure protection committee") said he was also considering taking a new look at infrastructure protection - an issue where U.S. expertise would be welcomed.

VP Mehdi: Very Agreeable

¶15. (C) Vice President Adel Abdul Mehdi said on November 6 that he fully agrees the GOI needs to capitalize on its momentum, and stated the Prime Minister should go with the February draft of the oil law which everyone agreed upon and send it to the CoR. He remarked Shahrastani insisted on the July draft, but the delay was costing everyone money. Mehdi said he would propose the Presidency Council send its own draft of the law, but commented "the PM said this would look

bad." He urged POTUS to work more closely with the PM to pass the law.

PM Maliki: Promises Progress

¶16. (C) Rounding out the Under Secretary's time in Baghdad, on November 7 Prime Minister Maliki noted Iraq needs the expertise of the USG in the oil field, and asked why the USG thinks the current Iraq petroleum law is "no good." He stated the existing law could be used by the international oil companies, who have expressed an interest in entering into contracts under it, but eventually concluded that the new law would be better for national unity because of the revenue sharing component. He promised within two weeks, the CoM will make good progress on the law.

COMMENT

¶17. (C) The visit served to convince GOI officials of the enduring USG interest in helping Iraq make progress on the hydrocarbon framework package (as well as on other benchmarks). However, to maintain the momentum, we see a continuing need for timely high-level intervention. END COMMENT.

¶18. (U) U/S Jeffery cleared this message.
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